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SUBJECT: VIETNAM: AGRICULTURAL EXPORTS CONTINUE TO GROW

REF: 08 HCMC 940 ("GVN Guessed Wrong on Rice")

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¶1. (U) SUMMARY. Vietnam's agricultural exports continue to show strong growth and Vietnam is now one of the world's leading exporters of a number of agricultural commodities like rice, pepper, cashews, and coffee. It is also beginning to focus on other products with higher margins. Ironically, a central planning-era system of export cartels and licensing continues to hold Vietnam back from becoming an even more prolific exporter of rice. END SUMMARY.

EMERGENCE OF AN AGRICULTURAL POWERHOUSE

¶2. (U) Over the last 20 years, Vietnam has transformed itself from a nation that had difficulty feeding itself into one of the world's agricultural powerhouses. It has become the world's largest exporter of pepper and currently holds a 50% share of the world's pepper market. It is the largest producer and exporter of Robusta coffee and the world's largest exporter of cashews. In 2008 Vietnam produced 200% more cocoa than the previous year, and expects to increase production by another 70% this year.

¶3. (U) As Vietnam continues to excel in agricultural markets around the globe, it is also looking to expand into other higher-value commodities such as Arabica coffee and premium rice. If Vietnam continues to push investment in these fields, it would compete directly with Brazil, the world's largest producer of Arabica coffee, and Thailand, the world's largest producer of high-grade rice.

AGRICULTURE ONE OF THE LEAST PROTECTED INDUSTRIES

¶4. (U) With the exception of rice, the agriculture industry is one of the least protected in Vietnam, and the government has allowed private businesses to serve as the trade intermediaries for many agricultural products. These companies tend to be quite small and nimble, and as a result, farmers and small private businesses have had an opportunity to find and exploit new markets. There is little state-owned enterprise involvement and the private sector plays a direct role in export activities. Rice remains an important exception, however, as it is a staple food in Vietnam and remains protected by the GVN.

¶15. (U) Despite the economic crisis and lower commodity prices, a bumper crop of rice, which in 2008 accounted for 4.6% of Vietnam's exports, is expected this year. Vietnam exported 700,000 tons in April, the highest of any month in the 20 years that Vietnam has been exporting rice. In the first four months of 2009, Vietnam exported 2.53 million tons with a total value of \$1.16 billion, an increase of 51 percent in volume and 42.5 percent in value over the same period last year.

¶16. (U) Rice exports for the remainder of the year will depend in part on government actions. The GVN regulates both local stocks and local prices through export contract registration, export targets, and local prices. In 2008, when there were fears of food scarcity worldwide and the price of rice and other commodities were at near historical highs, the GVN clamped down on rice exports, refusing to issue licenses for extended periods of time. The GVN argued publicly that it was protecting consumers from high food prices and assuring sufficient supplies (Reftel).

¶17. (U) The reality was more complex. Although small and medium sized farmers in the private sector are responsible for most rice production, mostly state-owned companies do the trading and exporting. Many of these exports are set by forward contracts with some of Vietnam's largest buyers, like the Philippines. As commodity prices skyrocketed in mid-2008, SOE traders found themselves having to fulfill orders that had been negotiated at much lower prices, potentially losing millions of dollars. The GVN came to their aid by driving the domestic price down to pre-inflationary points, allowing SOE traders to buy cheaply from the farmers.

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¶18. (U) Earlier this year the GVN acknowledged that it missed an opportunity in 2008 by not capitalizing on high rice prices, but fell short of owning up to the fact that it restricted exports to protect rice traders. The Prime Minister urged traders instead to be fairer to the farmers and pay them higher prices. In June, National Assembly members pointedly asked the Minister of Industry and Trade about what they deemed as Vietnam's failed export management system, decrying that it worked against the farmers.

¶19. (U) The GVN has also responded to the criticism by announcing that it would free up the market by reducing government involvement. Nonetheless, the GVN has yet to phase out the nationwide system of setting caps on export contracts. After stopping the issuance of export contracts in April, the GVN allowed 350,000 tons in contracts in June in hopes of still reaching its annual target export amount of 5 million tons. According to the media, the caps are still in place in order to control export shipments, keep close track of quantities shipped, and prevent export price dumping.

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